

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

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QUOTE OF THE WEEK

"It is when people forget God that tyrants forge their chains." --- Patrick Henry

UNDER THE DOME

*****Be Careful What You Ask For*****

Budget trailer bills are dangerous items. They are permanent changes in law, unlike the annual budget, and they are rushed through the process without hearings often very quickly as part of the deals to make the budget palatable. The county assessors just learned this harsh lesson.

The county assessors asked for \$3.5 million in the budget to be distributed to all 58 counties to improve the accuracy of the tax rolls, to process filings faster, and to make assessments sooner. This item was put in the budget early on and actually re-established a program that existed a few years ago and had a good record of success.

The county assessors also asked for an identical \$3.5 million to be given to only three of the county assessors to implement an untried, controversial proposal to assess property taxes on the managers of corporate jet fleets instead of the many timeshare owners. This proposal was put in a budget trailer bill along with an estimate that it would raise lots of money.

So, the Governor sees two identical amounts of money to assessors (actually, one was to 58 assessors and the other to only 3) and he sees that one promises more efficiency and the other promises more money. And the Governor made a commitment to cut hundreds of millions of dollars from the budget. Here is what the Governor decided: The Governor's veto message reads:

"I am deleting the \$3,500,000 legislative augmentation for grants to county assessors... Local government is anticipated to receive \$28,000,000 in property tax revenue in 2007-08 pursuant to a new method of collecting fractionally owned aircraft property taxes, facilitated by budget trailer bill legislation. As a result, this \$3,500,000 augmentation is unnecessary."

Be careful what you ask for. If you give a Governor choices, he will make them. My guess is if the 58 Assessors had been asked to choose between the program for all counties or the program for just three counties, they would have chosen the former. But that is not what happened, and

the final irony is that many property tax experts believe that the \$28 million that the Governor was promised by the three assessors is simply phantom revenue that may never materialize.

AROUND THE STATE

*****Belabor the Day*****

It is interesting how an opinion writer can get facts straight but then veer off to the wrong conclusion. The Labor Day opinion piece in the Sacramento Bee is a prime example. The article rightly point out that America already has a major flat tax system in place. Payroll taxes are 15.3% of everyone's wages. Then you pay income, sales and property taxes on top of that. The total burden of taxation is enormous. Rather than propose an across-the-board reduction of these regressive tax rates, the Bee proposes extending income tax credits to payroll taxes thus making our tax system even more complicated and then raising taxes on higher wage earners to make up the difference. The Bee did not provide numbers, but I am very skeptical that the money is there. Every tax rate increase ever proposed has brought in less money than calculated because the tax experts do not account for changes in the taxpayer's behavior. Let's make Labor Day a real holiday and lower the tax burden on all Americans.

<http://www.capoliticalnews.com/s/spip.php?breve2819>

ISSUE FOCUS

*****Intangible Riches*****

There is a marvelous article in the August/September issue of Reason magazine. Those who have been reading my letter for a long time will catch the wisdom of Julian Simon (The Ultimate Resource) and John Kurzweil (The Singularity is Near) in this article.

Reason's Ronald Bailey sat down with World Bank economist Kirk Hamilton to talk about the World Bank's study, "Where is the Wealth of Nations?", which deals with wealth in the modern world and what lessons we should draw for helping the poorest nations get out of poverty. The study can be downloaded at the World Bank site here:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/ENVIRONMENT/EXTEEI/0,,contentMDK:20872280~pagePK:210058~piPK:210062~theSitePK:408050,00.html>

This study represents a major change in thinking for the World Bank. In the past it was thought that injecting huge blocks of capital in large industrial projects was the best way to get poor countries on the road to prosperity. However, by the Bank's reckoning, these projects have failed more than half the time.

Hamilton's research shows that it is far better to focus on establishing respect for the rule of law and education than on providing material things. Focusing on the social institutions has the practical effect of attracting capital naturally. Simply providing this capital without the

associated social support makes capital wither and go the other direction.

What I find fascinating is the discussion in the study about wealth. The World Bank study divides capital into three kinds: Natural capital (natural resources), produced capital (machinery, equipment), and intangible capital (human labor, knowledge, skills). Divided this way, the study finds that natural capital accounts for only 5% of the world's wealth, produced capital only 18%, leaving 77 % of the world's wealth as intangible capital. How does he describe this? Hamilton says, "Intangible capital is capital that has an economic value but is not something you can drop on your foot." In other words, what really makes a country wealthy is the brainpower of its citizens and the institutions that allow the brainpower to flourish. He says, "It's the skills, not the rocks and minerals."

A practical example of this is Nigeria. Given the abundance of natural resources like oil, one would assume Nigeria would have riches galore. But the country has not provided legal stability and education, and is consequently not doing well at all. Despite the resources, very low efficiency occurs throughout the rest of the economy --- so much that Hamilton rates Nigeria as presently having "negative intangible capital".

The old thinking that human beings are burdensome and bad for the world is totally wrong. Robert Malthus, meet Julian Simon. People are the ultimate resource, provided they have the chance to live in societies that provide the structures of freedom.

*****"11th Hour" Movie Another Hollywood Sham*****

There was another terrific article, this time by Greenpeace co-founder Patrick Moore, in the Vancouver Sun last Wednesday. Moore whacks his old organization and Leonardo DiCaprio for bad science in their film, "The 11th Hour." Moore points out that if DiCaprio and other climate alarmists were really serious about combating global warming they would not be advocating leaving forests to their own, unmanaged end. Moore agrees with the Hollywood crowd that trees are great carbon consumers, and are thus a terrific weapon to combat whatever global warming is caused by carbon dioxide. But Moore says DiCaprio's call not to cut trees is based on bad science. The reason is simple. Turns out that the older and larger trees get, their capacity for taking carbon out of the air decreases.

Moore points out that trees harvested to make furniture during the Elizabethan age still contain the carbon those trees took from the air. In contrast, when trees are allowed to grow until they are diseased, struck by lightning, burned in fire, or die by other means, the carbon collected during the trees' life is released back into the atmosphere.

So, if you want to get carbon out of the air, you really need lots of young trees. This is accomplished by cutting down older trees, thus capturing the carbon contained in them, and replacing them with a new crop. While there seems little chance of converting the millions of acres of federally protected -- but rotting -- old growth forests, we should acknowledge the great good private forestry management does, not just by providing us with wood products, but for also providing the world with more carbon-free air.

Having strong feelings about trees, or other natural things, does not in itself make one in tune with nature. Despite the assumed enlightenment of the modern environmental movement, I predict history will remember this age's pop-science culture as being as intellectually dark as pre-Medieval times.

Hat-tip: Drudge Report

<http://www.canada.com/vancouversun/news/editorial/story.html?id=67623834-a1af-42e4-91cb-28492a462651>

MISCELLANY

A Good Read

“The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger” by Marc Levinson “The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger” by Marc Levinson is a prize-winning book that illustrates how innovation has the capacity to transform the world. William Baumol, a prominent expert on entrepreneurial efforts, explains that “the adoption of the modern shipping container may be a close second to the Internet in the way it has changed our lives. It has made products from every corner of the world commonplace and accessible everywhere. It has dramatically cut the cost of transportation and thereby made outsourcing a significant issue. It has transformed the world’s port cities and more.” Without the little noticed shipping container, there would be no globalization, no supply chains, no “just in time” manufacturing and no Wal-Mart.

Levinson initially reviews the economics of shipping the old “break bulk” way and shows the tremendous burden ports and shipping placed on manufacturing and trade. Then Levinson begins the modern story of the “box” with Malcolm McLean, whose initial efforts in 1956 to reduce shipping costs led to the company that became Sea-Land. In the course of overcoming obstacles such as industry inertia and vested interests toward technical standards, labor union opposition, government’s regulatory roadblocks and the enormous financial and infrastructure requirements containerization entailed, the world was transformed. The first 20 or so years of change were incremental and uneven, but when regulatory impediments were removed and shippers finally recognized containerization’s potential the transformation was revolutionary. The story is a fascinating tale that very much touches our daily lives, from the alarm clock that wakes you up each morning to the television set you watch in the evening.

BOE AND LEGISLATIVE DATES

September 7, 2007 --- Last day to amend on the Floor (J.R. 61(a)(13), A.R. 69(e)).

September 11-12, 2007 --- Board of Equalization meets in Sacramento.

September 14, 2007 --- Last day for any bill to be passed (J.R. 61(a)(14)). Interim Recess begins on adjournment (J.R. 51(a)(4)).

October 2-4, 2007 --- Board of Equalization meets in Culver City.

October 14, 2007 --- Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in the Governor's possession after Sept. 14 (Art. IV, Sec.10(b)(1)).

October 17, 2007 --- Board of Equalization meets with county assessors in Shell Beach.

October 23-24, 2007 --- Board of Equalization meets in Sacramento.

November 11, 2007 --- Veteran's Day (observed by state government on Monday, November 12)

November 14-15, 2007 --- Board of Equalization meets in Sacramento.

November 22, 2007 --- Thanksgiving.

December 11-13, 2007 --- Board of Equalization meets in Sacramento.

December 25, 2007 --- Christmas.

NOTABLE DATES/ HISTORY

Unless otherwise noted, credit for the dates in California history belongs to www.learncalifornia.org

September 4, 1781 --- Forty-four settlers completed a seven-month trip from Sonora and arrived at a site on the west bank of the Porciuncula River selected as an agricultural settlement. Four soldiers from Mission San Gabriel accompanied the pioneers in founding El Pueblo de Nuestra Senora la Reina de Los Angeles de Porciuncula, more commonly known today as Los Angeles.

September 4, 1972 --- At the Summer Olympic Games in Munich, West Germany, American swimmer Mark Spitz, born in Modesto, CA, won his seventh gold medal of the Games, as part of the U.S. 400-m relay team. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

September 5, 1882 --- Some 10,000 workers assembled in New York City to participate in America's first Labor Day parade. After marching from City Hall to Union Square, the workers and their families gathered in Reservoir Park for a picnic, concert, and speeches. This first Labor Day celebration was initiated by Peter J. McGuire, a carpenter and labor union leader who a year earlier co-founded the Federation of Organized Trades and Labor Unions, a precursor of the American Federation of Labor. < <http://memory.loc.gov/ammem/today/sep05.html> >

September 5, 1972 ---At the Summer Olympic Games in Munich, Palestinian terrorists murdered 11 members of the Israeli Olympic delegation in a hostage-taking attempt that ended in a firefight with German police. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

September 5, 1975 --- Lynette Fromme, an adherent of cult leader and convicted murderer Charles Mason, attempted to assassinate President Gerald Ford in Sacramento. A Secret Service Agent managed to disarm Fromme before she fired any shots. Two weeks later, on September 22nd, while Ford was in San Francisco, a woman named Sara Jane More fired several shots at the President, missing each time. Both women were sentenced to life imprisonment.

September 6, 1853 --- William Tecumseh Sherman, a young colonel serving in California, resigned his U.S. Army Commission to become a banker in San Francisco. Sherman actually proved a competent businessman, but his bank was ruined by the financial crisis of 1857, and he moved to New York. Sherman had initially come to California during the Mexican American war, but had seen no action. He went on to become one of the most famous and most aggressive Union generals during the Civil War, capturing the city of Atlanta and splitting the Confederacy in two with his destructive march to the sea. Of his time in San Francisco he said: "I can handle a hundred thousand men in battle, and take the City of the Sun, but am afraid to manage a lot in the swamp of San Francisco."

September 6, 1941 --- Germany's Nazi government required that all Jews in German-occupied territories wear the yellow star of David for identification.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 7, 1927 --- Philo Taylor Farnsworth and his assistants transmitted the first televised image at Farnsworth's Green Street laboratory in San Francisco. This image, designed to impress an audience of eager investors, was of a dollar sign (\$). Farnsworth was the rightful inventor of the television, but he later became involved in an acrimonious patent scuffle with RCA, and although the courts ruled in his favor, the coming of WWII suspended the production of televisions long enough for Farnsworth's patents to expire. Afterward RCA's aggressive marketing prevented him from even receiving credit as the inventor of the device. Farnsworth died in 1971, a bitter man who bemoaned the inane programming transmitted through his invention.

September 7, 1977 --- U.S. President Jimmy Carter and Panamanian leader Omar Torrijos signed the Panama Canal treaties, which returned the Panama Canal to Panamanian control in 2000. <

<http://memory.loc.gov/ammem/today/sep07.html> >

September 8, 1797 --- Father Fermín Francisco de Lasuén founded the Mission San Fernando Rey de España on lands granted by the Alcalde of Los Angeles. The mission survived an earthquake in 1812, despite heavy damage. At its peak it had more than 30,000 grape vines and 21,000 head of cattle. There was actually a brief gold rush in 1842 on the former mission lands when gold flakes were found in the root of an onion. Later, the lands came under the control of Andrés Bello, who mortgaged them to finance his rebellion against the Americans in 1846.

September 8, 1974 --- U.S. President Gerald Ford, who took office after Richard Nixon's resignation the month before, pardoned Nixon for any "crimes he committed or may have committed."

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

September 9, 1850 --- After months of contentious debate in Congress, President Millard Fillmore signed the act admitting California to the Union as the 31st state. The news arrived in San Francisco on October 18, 1850, setting off jubilant celebrations and rejoicing in nearly every city and town.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115

TDD service for the hearing impaired

TDD phones: 800-735-2929

Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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